

STATE OF WASHINGTON



OFFICE OF  
INSURANCE COMMISSIONER

## **MARKET CONDUCT EXAMINATION REPORT**

AS OF DECEMBER, 1996

JEFFERSON-PILOT LIFE INSURANCE COMPANY

100 NORTH GREENE STREET

GREENSBORO, NORTH CAROLINA 27401

BY

THE OFFICE OF THE INSURANCE COMMISSIONER

STATE OF WASHINGTON

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January 31, 2000

Honorable Deborah Senn  
Washington Insurance Commissioner  
Olympia, Washington 98504

Dear Commissioner Senn:

Pursuant to your instructions and in compliance with the statutory requirements of RCW 48.03.010, I have examined the corporate affairs and conduct of:

JEFFERSON-PILOT LIFE INSURANCE COMPANY

100 NORTH GREENE STREET

GREENSBORO, NORTH CAROLINA 27401

hereafter referred to as "the Company" or "Jefferson-Pilot" or "JPL." This report is respectfully submitted for your review and action.

### **Scope of Examination**

The examination was performed in compliance with the provisions of Washington insurance laws and regulations. The market conduct review followed the rules and procedures promulgated by the Office of the Insurance Commissioner (OIC) and the National Association of Insurance Commissioners (NAIC). The examination covered the period of January 1, 1992 through December 31, 1996. The examination was a target exam focused on the following areas of operations: Marketing and Sales Practices, Agent Activity, Complaints and Replacement Activity.

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## **EXAMINATION REPORT CERTIFICATION**

This examination was conducted in accordance with the Office of the Insurance Commissioner and National Association of Insurance Commissioners market conduct examination procedures. This examination was performed by Jeanne Mayer.

I certify that the foregoing is the report of the examination, that I have reviewed this report in conjunction with pertinent examination work papers, that this report meets the provisions for such reports prescribed by the Office of the Insurance Commissioner, and this report is true and correct to the best of my knowledge and belief.

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Pamela Martin

Chief Market Conduct Examiner

Office of the Insurance Commissioner

State of Washington

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## **FOREWORD**

Throughout the report, where cited, RCW refers to the Revised Code of Washington, and WAC refers to Washington Administrative Code.

## **SCOPE**

### **TIME FRAME**

The examination covered the company's operations from the period January 1, 1992 through December 31, 1996.

### **METHODOLOGY**

#### **Sampling Standards**

In general, the sample for each test utilized in this examination falls within the following guidelines:

#### **92 % Confidence Level**

#### **+/- 5 % Mathematical Tolerance**

#### **Regulatory Standards**

Samples are tested for compliance with standards. The tests applied to sampled data will result in an error ratio, which determines whether or not a standard is met. If the error ratio found in the sample is, generally, less than 5%, the standard will be considered as "met." The standard in the area of agent licensing and appointment will not be met if any violations are noted. This will also apply when all records are examined, in lieu of a sample. For those standards, which look for the existence of written procedures, or a process to be in place, the standard will be met based on the examiner's analysis of those procedures or processes.

### **MATTERS EXAMINED**

The focus of the examination was the life insurance and annuity business, which encompassed the following areas of operations:

- Marketing and sales practices
- Complaints
- Agents licensing
- Replacement activity

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## **HISTORY,**

## **TERRITORY OF OPERATIONS,**

## MANAGEMENT

The Company was originally incorporated on August 4, 1890 as Worth-Wharton Real Estate & Investment Company. The Company commenced business on July 1, 1903 as Southern Loan & Trust. In 1905, the name was changed to Southern Life and Trust Company and then changed in 1924 to Pilot Life Insurance Company.

Jefferson Standard Life Insurance Company, formed in 1907 in Raleigh, North Carolina, purchased Pilot Life Insurance Company in 1945 and merged it into Gate City Life Insurance Company. The surviving Company retained the Pilot Life Insurance Company name. In 1968 Jefferson Standard Life Insurance Company and Pilot Life Insurance Company became wholly owned subsidiaries of the holding company, Jefferson-Pilot Corporation.

Pilot Life Insurance Company was merged with Jefferson Standard Life Insurance Company in 1987 and the company was renamed Jefferson-Pilot Life Insurance Company.

Jefferson Pilot Life is domiciled in North Carolina. It is authorized to write insurance in 49 states, the District of Columbia, the Virgin Island, and Puerto Rico. The Company is primarily engaged in the writing of Whole Life, term, annuity, and endowment policies on an individual ordinary basis, and group life and group accident and health insurance policies. Accident and Health insurance plans are also written on an individual basis.

On May 31, 1995, JP Life assumed the life and annuity business of Kentucky Central Life Insurance Company (KCL) as part of the approved plan of rehabilitation for KCL. On November 20, 1996, JP Life completed the KCL transaction.

In October 1995, the company acquired Alexander Hamilton Life Insurance Company of America from a subsidiary of Household International, Inc. The acquisition was effective as of October 1, 1995. First Alexander Hamilton Life Insurance Company was also acquired effective October 1, 1995. This block of business consisted primarily of Periodic Payment Annuity contracts and Corporate Owned Life Insurance, written prior to the acquisition as well as credit life, accident and health and other business written in conjunction with the lending activities of Household International, Inc. On September 30, 1996, JP Life recaptured a portion of the reinsured Periodic Payment Annuity block of business from Household International. This transaction was completed by Household International transferring the assets and reserves to Alexander Hamilton (Michigan) Life Insurance Company, a newly formed insurance subsidiary of Alexander Hamilton Life.

On May 13, 1997, JP Life acquired all outstanding shares of Chubb Life from the Chubb Corporation. Chubb Life's life insurance operations are conducted nationwide through

Chubb Life and its life insurance subsidiaries, Chubb Colonial and Chubb Sovereign. Chubb Life also owned Chubb Securities Corporation a full service NASD registered broker dealer, now named Jefferson Pilot Securities Corporation and directly owned by Jefferson Pilot Life.

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Jefferson Pilot Life was admitted to the State of Washington on October 6, 1970. JPL is authorized to sell Life, Disability, Variable Life, and Variable Annuities. As of December 31, 1996, the total premium volume was \$4,412,111, and the Company had 238 active agents in Washington. The company has no general agent in Washington.

The majority of the company's administrative records are located in Greensboro, NC. The location of records depends on the product issued and the original issuing company. Many products issued, as a result of the aforementioned acquisitions and mergers became JPL products by endorsement. Files with loans, withdrawals, and all 1035 exchanges are processed and located in Lexington, KY. Variable Annuity files are maintained in Concord, NH.

A Board of Directors governs the Company and the current Board members for JPL are:

David A. Stonecipher	Chairman of the Board and Chief Executive Officer
Kenneth C. Mlekush	President
Dennis R. Glass	Executive Vice President, Chief Financial Officer, and Treasurer

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## **MARKETING PLAN**

The Company does not have marketing plans for each of the years covered in this examination. In lieu of marketing plans, copies of the company's strategic plan documents pertaining to career agency marketing and independent marketing were submitted for review. The plans cover long term goals, competition, operational priorities, and performance measures. They also included legislative and regulatory changes in addition to upcoming and ongoing industry changes. The plans did not contain any reference to vanishing premium policies, replacement programs, exchange programs, or any other indicators that could be construed as possible churning activities.

## **STANDARD (1)**

**Marketing plan contains no references to vanishing premium policies, replacement programs, exchange programs or other indicators or possible churning activities.**

**RESULTS: The Company does meet this standard.**

## **AGENT COMMUNICATIONS**

A large volume of agent marketing and training bulletins were received and reviewed. The communications were informative matters from the Home Office pertaining to new products, changes in procedures, sales tips, interest rates, sales promotions, seminars etc. Legislative and regulatory changes in addition to industry trends were also communicated to the agents. After a thorough review of every document, no evidence of any encouragement to replace internal or external policies was noted.

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### **STANDARD (2)**

**Agent communications do not encourage replacement of existing internal or external policies, special funding programs, or other indicators of churning activity.**

**RESULTS: The company does meet this standard.**

## **AGENT PRODUCED MATERIAL**

Agents are authorized to use only company approved advertising and sales material with respect to individual products. However, they are encouraged and allowed to produce their own advertising and sales material upon approval in writing from the Marketing Communications Manager. The company has an Advertising and Marketing Compliance Guidelines manual. The manual clearly defines what advertising is. It also, contains sections pertinent to the type of training materials that may be used to train and hire new agents. Agents are instructed to submit all advertising and sales material that they produce to the Marketing Communications Manager. The information is logged into a tracking system and monitored.

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### **STANDARD (3)**

**All agent or outside produced training materials are controlled by the company and the Company actively audits use of these materials.**

**RESULTS:** The company does meet this standard.

### **AUDITS OF AGENT ACTIVITIES**

The Company has a Corporate Internal Auditing Department, which is responsible for conducting internal audits of all Jefferson-Pilot Corporation subsidiaries. A copy of their Policies and Procedures Manual was submitted for review. These procedures focus primarily on the financial impacts, operation functions, and accounting practices and procedures of company operations. There were no procedures presented for examination that outlined agency audits, including appointment activity, replacement processing or review of agency produced advertising material.

The examiner was advised that JPL had no agencies located in Washington during the exam period and thus no audits were performed.

Subsequent Event: Following a review of the draft report the company revised the above statement and advised that, "*JPL had small independent agent offices making on-site audits to costly*".

### **STANDARD (4)**

**Company conducts regular audits of agent activities through regular branch or agency office audits and visits.**

**RESULTS:** The company does not meet this standard.

### **TRAINING MATERIAL**

A syllabus of training materials used mainly by JPL's career agent marketing system and a sales kit provided to all new independent agents was received and reviewed. The information was unremarkable. It contained no reference to special funding programs or other indicators of churning activity.

### **STANDARD (5)**

**Training materials for both new and existing agents in use during the examination period comply with the Washington advertising regulations.**

**RESULTS:** The company does meet this standard.



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## AGENT CONTRACTS AND COMMISSION SCHEDULES

The agent contracts and commission schedules were reviewed as part of the examination and were found to contain typical agent contract language outlining the agent's scope of authority to act on behalf of the Company and commission schedules for business written.

Neither the agent's contracts nor their commission schedules contain deceptive language or incentives that would encourage internal replacements. The Company has clearly defined commission rules regarding replacements. A replacement is any sale in which a JPL or subsidiary company's insurance policy or rider covering the same insured is terminated, partially surrendered, lapsed to reduced paid up, or lapsed to extended term insurance within the thirteen (13) months preceding, or four (4) months following, the application to JPL or a subsidiary company for a new insurance policy or rider or a face amount increase on an existing policy. Commissions on policies that have been determined by the Company to be replacements will be payable according to Company rules. If the Company determines after issue that a policy replaced an existing policy, the agent is required to repay the commission.

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### **STANDARD (6)**

**Agent contracts and commission schedules do not contain language that encourages internal replacements.**

**RESULTS: The company does meet this standard.**

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## COMPLAINT HANDLING PROCEDURES

The Company has complaint handling procedures and a company complaint log. The legal department has overall responsibility for ensuring that all customer and regulator complaints are properly recorded and resolved. The company gives this area a high priority and ensures that each complaint is handled in an expeditious manner.

The Company uses a Complaint Control form for tracking and monitoring purposes. *The examiner was advised that there are no formal procedures for reporting complaint trends to management.*

The examiner reviewed all complaints received by the company during the exam period. The total number of complaints by year were as follows:

1992	1993	1994	1995	1996
0	0	3	0	1

All complaints were handled in a timely manner. There was no evidence of unfair treatment of policyholders or claimants, or any pattern of activity, which would, indicate an unfair trade practice.

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**STANDARD (7)**

**The company has and follows written complaint handling procedures.**

**RESULTS: The company does meet this standard.**

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**STANDARD (8)**

**The company monitors complaint records for trends, and has a formal procedure for reporting trends to management. *(In 1993, the company added quarterly reporting to Senior management.)***

**RESULTS: The company does meet this standard.**

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**STANDARD (9)**

**Company responds to the Office of the Insurance Commissioner complaints within 15 business days and shows good faith in resolving complaint within 15 business days, as required by WAC 284-30-650.**

**RESULTS: The company does meet this standard.**

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**DISCIPLINARY PROCEDURES**

The company has written disciplinary procedures for agents suspected of wrongdoing. The information is reported to the Legal or Internal Auditing Departments. The Marketing Department is subsequently notified of an investigation. If the investigation discloses wrongdoing, disciplinary action is generally applied depending on the severity of the circumstances. The Legal department is ultimately responsible for weighing each case on its own merits. The following disciplinary actions are applied:

- Oral reprimand
- Written reprimand
- Loss of recruiting privileges for a period of time
- No business accepted for a period time
- Termination.

The examiner was advised that no disciplinary actions were taken during the examination period.

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#### **STANDARD (10)**

**The company has and follows written procedures for disciplining agents and that actions are documented.**

**RESULTS: The company does meet this standard.**

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### **IN FORCE POLICY REVIEW**

In order to determine compliance with Washington Replacement Regulations (WAC 284-23-400 through WAC 284-23-485) a review of inforce policy records was done as part of the examination. There were two primary objectives to this section of the examination:

1. Review records to determine the extent of replacement activity, both internal and external, associated with a policy issued during the examination period.
2. Review records to determine the extent of existing policies financing new policies issued during the examination period. This financing could be accomplished through policy loans on existing policies, surrender of existing policies, exercising other non-forfeiture options on existing policies or partial surrenders of existing policies.

To accomplish this review, the examiner requested that the Company provide a database of files broken down into the following categories:

- Policies issued in the State of Washington during the examination period.
- Policies issued during the exam period where there was an existing policy at the start of the examination.
- Policies issued during the exam period where existing policies have loans against them.
- Policies issued during the examination period that had an existing policy surrendered during the exam period.
- Policies issued during the examination period where the dividends from the existing policy were used to pay premiums on the new policy.
- Policies issued during the examination period where paid up additions were surrendered on the existing policy.
- Policies issued during the examination period where a Non-Forfeiture Option (NFO) was exercised on the existing policy.

There were 418 policies issued in Washington during the examination period of January 1, 1992 through December 31, 1996.

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#### **Policies Issued in the State of Washington during the Examination Period**

Population	Sample Size	Number of Exceptions	Percentage to Sample
418	61	5	8%

From a population of 418 policy files, a sample of sixty-one files was reviewed. There were a total of (14) external replacements and (2) internal replacements. The sample yielded five (5) exceptions. All five (5) files were determined to be external replacements. Each lacked documentation of notification to the existing company within 3 days of submission, as required by WAC 284-23-455(2)(b). *See Appendix (1).*

#### **Policies Issued with an Existing Policy at the Start of the Examination**

Population	Sample Size	Number of Exceptions	Percentage to Sample
11	11	0	

From a population of 11 policy files, all eleven (11) were reviewed. The review yielded no exceptions.

**New Policies with Surrender of Existing Policies**

Population	Sample Size	Number of Exceptions	Percentage to Sample
7	7	0	

From a population of 7 policy files, all seven (7) were reviewed. The review yielded no exceptions.

**Dividends From Existing Policy Used To Pay Premium On New Policy**

Population	Sample Size	Number of Exceptions	Percentage to Sample
0	0	0	0

JPL reported no files in this category.

**Non-Forfeiture Option Exercised on Existing Policy**

Population	Sample Size	Number of Exceptions	Percentage to Sample
0	0	0	0

JPL reported no files in this category.

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**REPLACEMENT ACTIVITY**

The Office of the Insurance Commissioner is charged with the responsibility and enforcement of WAC 284-23-400. The purpose of this regulation is:

1. To regulate the activities of insurers and agents and brokers with respect to the replacement of existing life insurance and annuities;
2. To protect the interest of Life insurance and annuity purchasers by establishing minimum standards of conduct to be observed in replacement transactions by:

- a. Assuring that the purchaser receives information with which a decision can be made in his or her own best interest;
- b. Reducing the opportunity for misrepresentation and incomplete disclosures; and
- c. Establishing penalties for failure to comply with the requirements of this regulation.

JPL has documented replacement procedures that were reviewed for accuracy, adherence to Company guidelines, and compliance with Washington statutes and rules. The company has written replacement procedures that are consistent with Washington replacement regulations; however, the company did not consistently adhere to these procedures.

The company was asked to produce replacement logs for both internal and external policy replacements. The examiner was informed that JPL never maintained an internal replacement log. JPL's response was, *"Internal replacements are controlled through our commission adjustment procedures and the fact that JPL pays no commission on rollover funds. We can determine the number of multiple policies on the same life and the corresponding policies involved."*

Additionally, the examiner was informed that JPL maintained a manual external replacement log until December 16, 1994 and that this log was destroyed when JPL's New Business Department relocated their offices. The examiner was informed that JPL now has a database program where external replacements are recorded. JPL was asked to produce information on replacements after December 16, 1994. Their response to the examiner's request was, *"I have queried the replacement database and found no external replacements for the period 12/16/94 through 12/31/96"*. Based on the information uncovered in the policy review section (*page 15*) it would appear that JPL's database is inaccurate and or incomplete.

NOTE: Due to the lack of documentation, the examiner was unable to fully ascertain JPL's compliance or noncompliance with Washington replacement regulations during this examination. JPL had difficulty in producing complete documentation and records in a timely manner throughout this examination. This is a violation of RCW 48.03.030, which requires the company to produce records and to facilitate the examination.

The company appeared to be in violation of WAC 284-23-455(3), which requires that the replacing insurer shall maintain evidence of the "Notice Regarding Replacement," the policy summary, the contract summary and any ledger statements used, and a replacement register, cross indexed, by replacing agent and existing insurer to be replaced.

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Subsequent Event: Following a review of the draft examination report, the Company did locate the replacement log data from January 1995 through December 1996. Findings for the following standards reflect the information provided.

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**STANDARD (11)**

**Replacement procedures are in writing and are consistent with the Washington replacement regulations, WAC 284-23-400 THROUGH WAC 284-23-499.**

**RESULTS: The company does meet this standard.**

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**STANDARD (12)**

**Number of replacements for any one agent in any calendar year should not be significant (>1 per month, combined internal and external replacements).**

**RESULTS: The company does meet this standard.**

**STANDARD (13)**

**The company has identified patterns of replacement by individual agents such as moving policies in and out of the company at regular intervals, replacement of large blocks of business, moving funds from one policy to another.**

**RESULTS: The company does meet this standard.**

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**ADVERTISING MATERIAL**

The Company's advertising file was reviewed in accordance with WAC 284-33-090. The company provided randomly selected samples from their advertising catalog file for review and based upon examination of those documents it appears that the advertising files contained copies of all advertising materials as statutorily defined, including copies of agent created advertising material.

Illustrations were run and reviewed relative to RCW 48.23A. No two tiered nor bonus interests tied to keeping the policy in force situations were discovered. There were

adequate disclaimers relative to projected or illustrative values and the guaranteed versus projected values were adequately identified to be compliant. Various attempts were made to input interest rates different than those available on the pull down menus. Modifications of text were also attempted and all attempts were unsuccessful.

During the exam period the company did not require a copy of the illustration be submitted with the application. They did require the illustration be submitted effective January 1997 for all states that have adopted the NAIC Model Regulation.

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#### **STANDARD (14)**

**The advertising file contains copies of all advertising materials as statutorily defined; including copies of agent created advertising material.**

**CODE: WAC 284-23-020 and WAC 284-23-090**

**RESULTS: The company does meet this standard.**

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#### **STANDARD (15)**

**Advertising materials comply with Washington advertising regulations.**

**CODE: WAC 284-23-010 THROUGH WAC 284-23-080**

**RESULTS: The company does meet this standard.**

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### **AGENT APPOINTMENTS AND LICENSING**

JPL has documented licensing and appointment procedures that were reviewed for accuracy, adherence to Company guidelines, and compliance with Washington statutes and rules. However, it appears that the company did not consistently adhere to these written procedures.

A review of 410 policy files was performed. Agent appointments were compared against policy issue dates and in some instances to the actual application date to determine if the agent was licensed and properly appointed prior to soliciting business. It was determined that one (1) agent was not licensed in Washington at the time one policy was solicited. This is a violation of RCW 48.17.060. Nine (9) agents were not appointed with the



company at the time of solicitation of nine (9) policies. These are violations of RCW 48.17.160. *Appendix (2)* contains a list of agents not licensed with the State of Washington and *Appendix (3)* contains a list of agents not appointed with JPL at the time the application was taken.

Population	Sample Size	Number of Exceptions	Percentage to Sample
410	410	10	2%

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#### **STANDARD (16)**

**Agents representing the company have been appointed prior to soliciting applications on behalf of the company according to RCW 48.17.010.**

**RESULTS: The Company does not meet the standards.**

#### **STANDARD (17)**

**All agents that have been terminated for cause by the company have been reported terminated to the Office of the Insurance Commissioner.**

**RESULTS: The Company does meet the standards.**

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### **INSTRUCTIONS**

1. The company is instructed to send to each existing insurer a timely written communication advising of a replacement or proposed replacement. This written communication shall be in accordance with WAC 284-23-455(2)(b) and shall be retained in the policy files. (*See appendix 1*).
2. The company is instructed to comply with WAC 284-23-455(3).
3. The company is instructed to comply with RCW 48.17.160(1)(2) and ensure that all agents and brokers are properly licensed and appointed in the state prior to soliciting on behalf of the Company. (*See appendix 2 and appendix 3*).
4. The company is instructed to implement procedures to ensure future compliance with RCW 48.03.030, which requires the company to produce records and to facilitate the examination.

### **RECOMMENDATIONS**

1. It is recommended that company personnel and producers receive additional training regarding:
    - The importance of completing all applicable sections of the replacement forms.
    - Required timeframes for notification to replaced insurers.
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**APPENDIX (1)**

**INCOMPLETE REPLACEMENT REQUIREMENTS**

**VIOLATION OF WAC-284-23-455(2)(b)**

<b>POLICY NUMBER</b>	<b>DATE APPLICATION SUBMITTED</b>	<b>REPLACEMENT NOTIFICATION TO EXISTING COMPANY</b>
JP4364287	5/24/95	6/6/95
JP4360587	5/1/95	5/9/95
JP4317376	6/6/94	6/23/94
TP4361812	5/4/95	5/18/95
TP4321800	7/14/94	9/12/94

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**APPENDIX (2)**

**AGENTS NOT LICENSED IN WASHINGTON**

**VIOLATION OF RCW 48.17.060(1)(2)**

<b>POLICY NUMBER</b>	<b>DATE OF ISSUE</b>	<b>AGENT</b>	<b>LICENSING DATA</b>
TL4388201	11/17/95	MARCUM	NONE

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**APPENDIX (3)**

**AGENTS LICENSED BUT NOT APPOINTED**

**VIOLATION OF RCW 48.17.160**

<b>POLICY</b>	<b>DATE OF ISSUE</b>	<b>DATE OF APPOINTMENT</b>	<b>DATE OF</b>	<b>AGENT</b>
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<b>NUMBER</b>			<b>APPOINTMENT CANCELLATION</b>	
JP4393141	12/6/95	12/21/95		BARNES
JP4395131	10/12/95	1/25/96		BURCH
JP4383152	9/7/95	9/29/95		BEAMISH
JP4387626	11/28/95	12/15/95		FESTE
JP4366859	7/1/95	7/11/95		SCALZI
JP4372285	6/15/95	6/30/95		STOYKO
JP4402492	4/10/96	NONE		MASON
TP4365777	6/1/95	1/28/94	11/1/94	CHAMBERLAIN
JP4407355	6/19/96 (Application signed 4/18/96)	4/19/96		GRIBBEN